

## Message Text

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ACTION ARA-10

INFO OCT-01 ISO-00 EB-03 SS-14 INR-10 L-02 SP-02 PRS-01

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R 192154Z JUN 74

FM AMEMBASSY LIMA

TO SECSTATE WASHDC 634

S E C R E T LIMA 4950

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LIMDIS

EO 11652 GDS

TAGS: EMIN, ENRG, EFIN, EAL, PE

SUBJ: PETROPERU TO BUILD OCCIDENTAL FEEDER LINE

REFS: LIMA 4852, STATE 128763

1. SUMMARY: ON JUNE 9, MINISTER OF MINES AND ENERGY GENERAL FERNDANDEZ MALDONADO UNEXPECTEDLY ANNOUNCED THAT PETROPERU WILL CONSTRUCT THE 250 KM. FEEDER LINE FROM THE OCCIDENTAL (OXY) CONTRACT BLOCK TO PUMP STATION NO. 5 ON THE TTANS-ANDEAN PIPELINE. IN SEPARATE CONVERSATIONS WITH EMBASSY OFFICERS, GENERAL FERNANDEZ BACA, COFIDE OFFICIALS (LIMA 4852) AND LOCAL OXY VP CONFIRMED MINISTER'S STATEMENT WHICH THEY SAID IS BASED ON OXY RELUCTANCE TO UNDERWRITE COST OF FINANCING ITSELF, AND PERU'S POLITICAL IMPERATIVE TO PRODUCE OIL ASAP (MOST PROVEN RESERVES ARE PRESENTLY IN OXY'S BLOCK).

2. OXY VP IN UTMOST CONFIDENCE PROVIDED EMBASSY OFFICER WITH HIGHLY SENSITIVE INFORMATION THAT OXY DECISION, WHICH HAS BEEN UNDER DISCUSSION WITH PETROPERU SINCE FEBRUARY, 1974, IS BASED PRIMARILY ON PETROLEUM CONSULTING FIRM'S JUDGEMENT THAT OXY'S CONTRACT BLOCK DOES NOT HAVE SUFFICIENT RESERVES AT PRESENT TO CONVINCE BANKS

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TO UNDERWRITE \$120 MILLION PROJECT. OXY ALSO HAS MAJOR

EXPANSION PLANS UNDER CONSIDERATION ELSEWHERE IN WORLD, AND IS NOT THEREFORE IN POSITION TO FINANCE COST ITSELF. THUS, OXY RELIEVED THAT PETROPERU WILL BE PICKING UP THIS ADDITIONAL COST. OXY DOES NOT FORESEE ANY POLITICAL REPERCUSSIONS FROM THIS DECISION.

3. PETROPERU'S FINANCING OF FEEDER LINE INCREASES SHORT-RUN COST TO PERU, MUSH OF WHICH WILL BE COMPENSATED IN LONG RUN BY INCREASED TARIFFS PAID BY OXY. DECISION SHOULD HAVE NO EFFECT ON OVERALL CONSTRUCTION OF TRANS-ANDEAN PIPELINE ITSELF WHICH WILL SERVICE OTHER CONTRACT BLOCKS AS WELL, NOR SHOULD IT NECESSARILY ESTABLISH PRECEDENT FOR PETROPERU TO BUILD OTHER FEEDER LINES FOR COMPANIES WITH PROMISING FINDS. END SUMMARY.

4. OXY VICE PRESIDENT TOLD EMBASSY OFFICER JUNE 17 THAT HIS COMPANY PRESENTLY ESTIMATES THAT THE OIL IN ITS CONTRACT BLOCK WILL PRODUCE ABOUT 100,000 BPD-120,000 BPD, A COMMERCIALY ADEQUATE FLOW BUT NOT A MAJOR FIND BY INTERNATIONAL STANDARDS. PRESENT INDICATIONS ALSO POINT TO OXY FIELD PRODUCING AT COMMERCIAL LEVELS FOR 5-7 YEARS. THIS INFORMATION, WHICH IS OBVIOUSLY OF HIGHEST SENSITIVITY, IS SUBJECT TO FUTURE OIL DISCOVERIES BY OXY. (IT HAS COMPLETED 11 WELLS, ALL ON THE FLANKS OF MAIN PETROLEUM STRUCTURE, AND NEW WELLS, SEVERAL OF WHICH MAY BE OVER CENTER OF STRUCTURE, COULD BE BETTER PRODUCERS. IT PLANS DRILL APPROXIMATELY 20 MORE WELLS AT A COST OF \$1.5 MILLION PER WELL.) CURRENT PROGNOSIS ABOUT AMOUNT OF PETROLEUM IN OXY'S BLOCK FORMS BASIS OF RELUCTANCE ON PART OF DEGOLYER & MCNAUGHTON, AN INTERNATIONAL PETROLEUM CONSULTING FIRM, TO RECOMMENT \$120 MILLION FINANCING TO BANKS. UPON LEARNING OF THIS RELUCTANCE, OXY QUIETLY BEGAN NEGOTIATING WITH PETROPERU LAST FEBRUARY FOR LATTER TO ASSUME COST OF FEEDLINE. JUST BEFORE MINISTER'S JUNE 19 PUBLIC ANNOUNCEMENT AT DEDICATION OF TALARA CARBON BLACK PLANT (LIMA A-149), JOE BEARD, OXY PRESIDENT, TALKED WITH PETROPERU COUNTERPART FERNANDEZ BACA AND MINISTER OF MINES. FOLLOWING MINISTER'S ANNOUNCEMENT, PETROPERU OFFICIAL VISITED OXY HEAD-QUARTERS IN LOS ANGELES TO DISCUSS FURTHER WITH OXY AND HAS NOT YET REPORTED BACK TO LOCAL OXY OFFICE.

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HOWEVER LOCAL OXY VICE PRESIDENT CERTAIN THAT OXY HEADQUARTERS PLEASED WITH DECISION SINCE IT GREATLY REDUCES OXY'S INITIAL FINANCING COST, ALTHOUGH COMPANY WILL NOW BE REQUIRED TO PAY FULL TARIFF FOR USE OF FEEDER LINE. IT ALSO APPEARS THAT PETROPERU WILL FORGO BUILDING SECOND FEEDER LINE IMMEDIATELY TO ITS OWN LESS PRODUCTIVE FIELDS.

5. EXIMBANK NOT YET OFFICIALLY INFORMED BY OXY BUT WILL BE AS SOON AS COMPANY BOARD APPROVES PETROPERU DECISION.

6. OXY'S CONTRACT WITH PETROPERU IS SILENT ON POINT OF STATE OIL COMPANY BUILDING FEEDER LINE, MERELY MENTIONING THAT PETROPRU HAS OPTION TO PARTICIPATE WITH OXY IN CONSTRUCTION OF FEEDER LINE BY FORMER, UP TO COST OF 50 PERCENT OF TOTAL.

7. COMMENT: OCCIDENTAL CLEARLY PLEASED TO REDUCE ITS CAPITAL EXPOSURE TO PERU, EVEN THOUGH IT MAY BE FORCED TO PAY SUBSTANTIAL TARIFFS OVER THE LONG RUN. LOCAL OCCIDENTAL MANAGEMENT BELIEVES THAT PRESENT CONTRACTS MAY BE MODIFIED OVER TIME IN GOP FAVOR, SO THAT IT BEST TO MINIMIZE INITIAL RISK AND MAXIMIZE INITIAL PROFIT. THIS VIEW, NEEDLESS TO SAY, FITS CONVENIENTLY INTO OXY'S PRESENT FINANCIAL SITUATION WITH OXY APPARENTLY PRESSED FOR CASH RESERVES TO FINANCE EXPANSION IN SEVERAL MAJOR PROJECTS IN OTHER PARTS OF WORLD. OCCIDENTAL'S FIELDS, INCIDENTALLY, HAVE BEEN TOUTED BY MOST U.S. AND PERUVIAN PETROLEUM OBSERVERS AS HARBINGER OF FUTURE PERUVIAN OIL FINDS. RELATIVE MODEST ESTIMATE OF TOTAL RESERVES (200,000,000 BBLs.) IN OXY BLOCK DOES NOT AUGUR PARTICULARLY WELL FOR OVERALL PERUVIAN OIL DISCOVERIES ON STANDARD OF VENEZUELA'S BUT DOES NOT NECESSARILY MEAN THAT NORTH JUNGLE FIELDS WILL NOT PRODUCE 200,000-500,000 BPD. QUANTITIES FOR WHICH MAIN PIPELINE BEING BUILD AND UPON WHICH MUCH OF PERU'S FUTURE DEVELOPMENT HOPES DEPEND. AFTER COMPLETION OF CURRENT DRILLING PROGRAMS BY SEVEN COMPANIES (LIMA A-76) BY END OF 1974, IT SHOULD BE POSSIBLE TO ASSESS WITH GREATER ACCURACY THE AMOUNT OF PETROLEUM RESERVES PERU POSSESSES.  
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## Message Attributes

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